

**PENSION REFORM COMMITTEE
MEETING OF
Tuesday, January 27, 2004
4:00 PM – 6:00 PM Meeting**

**401 B Street
Conference Room, 4th Floor**

MINUTES

**THE REGULAR MEETINGS OF THE PENSION REFORM COMMITTEE ARE
SCHEDULED FOR EVERY TUESDAY AT 4:00 PM AT 401 B STREET, 4TH FLOOR**

Item 1: Call to Order

Item 2: Roll Call

<u>Members Present</u>	<u>Members Absent</u>	<u>Staff Present</u>
April Boling	Steve Austin	Patricia Frazier
Robert Butterfield		Chris Morris
Tim Considine		Larry Grissom, SDCERS
Stanley Elmore		Paul Barnett, SDCERS
Judie Italiano		Mary Braunwarth
William Sheffler		Pam Holmberg
Richard Vortmann		
Kathleen Walsh-Rotto		

Item 3: Approval of Minutes

There was a motion for approval of the minutes for the January 20, 2004 Pension Reform Committee (Committee) meeting from Ms. Italiano. The motion was seconded by Mr. Sheffler and passed unanimously with Mr. Considine and Mr. Elmore abstaining.

Item 4: Presentation from City Employee Labor Organizations

Local 127 president, Joan Raymond, addressed the Committee on the concerns of her Union's members. Local 127 represents over 2,200 City of San Diego blue collar and skilled trade workers. She reiterated that retirement benefits have been negotiated, not given. Employees have made sacrifices in pay raises and other benefits to enhance their retirement benefits. Local 127 has never had a representative on the Retirement Board. The City has problems recruiting and keeping employees. For example, the City sent job announcements to 13,000 certified water plant operators in California. Only thirteen applications were submitted and only one accepted a job with the City. The salaries offered to the jobs classifications represented by Local 127 are often at the bottom when compared to the ten largest cities in California. She said the DROP program was a great benefit for both employees and the City. Employees can enhance the amount of their retirement and the City saves money by making smaller contributions for the employee. In addition, the City is able to secure the employee's skill and knowledge for a few

more years. Most Local 127 members will not qualify for the DROP program because of the hazardous nature of their work. Many employees are forced into disability retirement, receiving only 50% of their benefit amount. Poor wages and benefits result in higher turnover, lower productivity and more costly services in the long run for the taxpayer. She feels the City's retirement system is already multi-tiered. The general members are on the bottom of the system behind safety members and elected officials. Those classifications have different requirements for vesting and often receive raises in pay and benefits six months before general members.

Mr. Butterfield asked the Union's opinion of a two-tiered or defined contribution plan. Ms. Raymond said she suspected her members would reject such an offer, but they are always willing to explore and investigate new ideas. He asked if the Union would consider channeling raises to the retirement plan until it was funded to a higher level. She said they always have an open mind in the meet and confer process, but on the surface she would be very skeptical. Ms. Boling had a question on the rate of retirement contributions paid by the City and the employee. Mr. Grissom clarified that general member's rate is 10% of their pay with the City paying 6% and the employee paying 4%.

Ron Saathoff, president of the Firefighters Local 145, provided the Committee with a presentation (see attached). He highlighted many of the improvements negotiated for retirees over the past 30 years through the meet and confer process. The Unions are under no obligation to negotiate for retirees during the meet and confer process, but do so to help insure livable benefits for both active and retired employees. He further elaborated on the DROP program, highlighting the benefits for employees and the savings to the City. Ms. Boling asked for further clarification comparing the benefits received by an employee as a regular retiree versus entering the DROP before leaving the City. Mr. Grissom was asked to provide examples at the next meeting. Mr. Saathoff discussed the two-tiered pension system that had been in practice in the past. There was a big disparity in the benefits being received by two people doing the same job. New employees had less of an incentive to make the City of San Diego a career because of the diminished benefits. Many classifications within the City became a training ground for employees, especially for police officers and firefighters. After receiving training and experience they would leave for other jurisdictions with better benefits. He believes if a two-tiered system was instituted again we would see another exodus of employees to other jurisdictions, especially since we have a reciprocity agreement that allows employees to move from one public system to another without losing benefits. He encouraged the Committee to further investigate healthcare and how payments under the waterfall system are calculated. He suggested changes may be in order for the 30 year amortization period that is used. New benefits are amortized over a reduced number of years and add to the cost to the system. He believes the Corbett settlement payments should be made an actuarial cost because payments are carried over to the next year if there are not sufficient surplus earnings.

Mr. Butterfield asked about the Union's opinion on redirecting future pay raises to funding the retirement system. Mr. Saathoff said the Union is always open to new suggestions in the meet and confer process.

Candi Mitchell spoke under public testimony as a carry-over from last meeting. She is a City employee and when she started working for the City she worked under the two tiered system. She joined MEA and worked on the negotiation team to secure equal benefits and help improve them. Improving retirement benefits came at the price of sacrificing wage and other benefit

increases. She understands that benefits she will get when she retires may be different than those received by future employees, but feels what she gets will be fair.

Item 5: Discussion Related to Previously Docketed Items

The Committee discussed the draft letter for distribution to selected potential speakers. They approved the letter and reviewed the distribution list, which included Retirement Board member Diann Shipione, Union Tribune reporter Phil LaVelle, San Diego Taxpayers Association member April Boling, a representative from the Port District, Councilmembers Maienschein and Frye, Mayor Murphy, and Keith Enerson, a past president of the Retirement Board. It was agreed not to invite any public officials since they are party to the litigation, and their testimony would be limited. Ms. Boling withdrew her name from consideration. It was agreed that the remaining candidates will receive a letter.

Mr. Sheffler reported that he had worked with Mr. Austin to refine the scope of questions to be proposed to Rick Roeder for additional studies. He said they are scheduled to meet with Mr. Roeder on February 2 to review this proposed scope of work and will report back to the Committee on February 3. Mr. Morris reminded the Committee that they can discuss the scope of work with Mr. Roeder, but only the City Manager can execute the contract and authorize payment for services.

Ms. Boling asked about the status of the Actuarial Valuation in terms of payroll numbers. Mr. Grissom said he has the final report and will be meeting with the Actuary and the Auditor. He agreed to give a presentation at the next meeting on the numbers and how they were derived.

Mr. Considine reported that he is continuing to work with Sanford Bernstein regarding their pro bono review of SDCERS' investment allocations and assumptions. He said they will investigate whether SDCERS' returns are at the expected levels. Mr. Considine asked that Mr. Grissom provide him with a contact name that Sanford Bernstein can use for information. Mr. Grissom agreed to be that contact. Ms. Walsh-Rotto asked for clarification of Sanford Bernstein's qualifications and who within the company would be performing the review. Mr. Considine said the work would be performed by the corporate office. He will provide her with a contact at Sanford Bernstein to answer further questions.

Item 6: New Business

There was no new business

Item 7: Discussion of Upcoming Presentations Related to the Retirement System Overview and Meeting Schedule

The agenda for next week's meeting will include a discussion on the scope of work for the actuarial study and a review of the June 30, 2003 actuarial valuation. Ms. Boling reported that the February 10 meeting will be a discussion of the work plan and the meeting room will be reconfigured to facilitate discussions. At that meeting, the schedule of upcoming meetings will be reviewed to determine the frequency of future meetings and the need for sub-committees. Mr. Morris clarified that any sub-committee meetings would fall under the same Brown Act restrictions as regular Committee meetings.

Item 8: Work Plan for the Pension Reform Committee

Ms. Boling said the Committee should be prepared to go forward with any additional studies by February 15 when Mercer returns with their confirmation of reliance. She said her goal is to have a preliminary report for City Council completed by mid-April so any recommendations could be considered in the City's budget process.

Item 9: Comments by Committee Chairperson

Ms. Boling reported that she delivered the Committee's status report to the City Council on January 26. She said it was well received and no issues were raised.

Item 10: Comments by Committee Members

Mr. Butterfield raised a few ideas he had for funding sources for SDCERS. He said he would like an inventory of City assets to see if there are any items that could be shifted to SDCERS or sold with the proceeds going to the system. He would also like to propose that the City approach the Unions in the meet and confer process regarding deferring raises to fund SDCERS. Raises would be deferred until the retirement system reaches a certain funding level.

Item 11: Non-Agenda Public Comment

Cathy Anzuoni has been a City employee for over 24 years in the Park & Recreation Department. She knowingly chose a career where wages could not compete with those of the private sector, but she received other rewards from her work. One of those benefits was a solid retirement plan. In recent lean budget times employees have had to do more with less, taking on more duties and responsibilities. The public is getting a bargain from employees.

John Gruffo ceded his time.

John Bahl is a City Lifeguard. He said most lifeguards don't make a complete service retirement because they have the highest disability rate in the City. There have been only three service retirements in the lifeguard's history. The City's Lifeguard service is one of the best in the world. San Diego has a tourist driven economy and lifeguards help to keep safety at our beaches on a daily basis.

Patricia Karnes attended the last Retirement Board meeting when they presented the actuarial report. It was unclear to her about the funded level. The report reads that retirees were funded at over 130% and current employees were only funded at 67%. She wonders where the cut off level is between those two different figures. Are the people that are retiring this month funded at 130%, and are the people still working for the City less than that? She knows the Committee will be hearing about the report at the next meeting and hopes that her questions will be answered then. Ms. Boling asked Mr. Grissom to incorporate Ms. Karnes questions into his presentation.

Jim Gleason said the 130% figure was misleading. He said that everybody is about 60% funded. He urged the Committee to consider equity as they go forward with their decisions. Retirees are not included in the meet and confer process. He feels the Unions have done little to help the retirees and changes have only resulted when retirees lobby the City Manager. An example of

how retirees are lost is contained in the current Popular Annual Financial Report. When listing significant changes in SDCERS, they are silent on the lack of payment of contingent benefits for the past two years. The power to change is in the meet and confer process, and the retirees are left out.

Item 12: Adjournment

The meeting was adjourned at 6:20 PM. .

Retirees Benefit Enhancements

- 1971

- Annual COLA of up to 1.5% for retirees

Retirees Benefit Enhancements

- January 19, 1976.
 - Minimum monthly allowance of \$150 to all General Members who retired prior to July 1, 1971 with 20 years of creditable service.

Retirees Benefit Enhancements

- October 6, 1980
 - Adopted Supplemental Benefit Program to distribute, each November, 50% of surplus undistributed earnings, if any, to qualified retirees (13th Check)

Retirees Benefit Enhancements

- September 9, 1981
 - Add 59 retired Policemen on fixed benefits who were inadvertently excluded in the annual Supplemental Benefit Program (13th check)

Retirees Benefit Enhancements

- May 5, 1986
 - Increase COLA for retirees between 10/6/80 and 6/30/85 from 1.5% to 2.0%
 - Provide paid health insurance to General Members who retired 10/6/80 – 1/8/82 & for Safety Members 10/6/80 – 6/30/84
 - General Members who retired 1/8/92- 6/30/85 13th Check increased to \$45 per year of service

Retirees Benefit Enhancements

- April 1992

- Increase maximum COLA from 1.5% to 2% for those who retired prior to 10/6/80 (except fluctators)
- Increase special class Widows Benefit from \$150 to \$350

Retirees Benefit Enhancements

- October 1995
 - Retirees Death Benefit increased from \$400 to \$2000

Retirees Benefit Enhancements

■ 1996

- For FY97 only, 13th Check increased from \$30 to \$60 per year for retirees between 1/1/72 & 10/6/80.
- For FY97 only, 13th Check increased from \$30 to \$75 per year for retirees who retired on or before 12/31/71

Retirees Benefit Enhancements

■ 1997

- Increased 13th Check amounts for those who retired before 10/6/80 made permanent.
- \$600 annual health benefit added for retirees prior to 10/6/80
- Remarriage penalty for special death benefit removed

Retirees Benefit Enhancements

- 1999

- Supplemental COLA added 75% purchase power formula with 50% cap on increases

Retirees Benefit Enhancements

- 2000

- Corbett Settlement

- Lump sum payment in 11/2000

- Representing a 7% increase to base retirement allowances retroactive to 7/1/95

- Effective 7/7/00 this right to receive the 7% increase to base retirement is contingent on availability of SUE. If insufficient SUE, liability carried forward to the next year.

Year 2000 continued

- Eligibility for Supplemental COLA expanded to include those who retired on disability with less than 10 years of service.
- Health insurance benefit expanded to permit reimbursement for retirees out of the area up to the cost of retiree-only premium for city sponsored PPO

Retirees Benefit Enhancements

- 2001

- Reimbursement amount for non-health eligible retirees (retired prior to 10/6/80) increased from \$600 to \$1200 annually

DROP

■ Basics

- Must be retirement eligible to elect to DROP
- Maximum 5 year participation (L145 only 5 year may be extended by annual leave accrued after 7/1/02)
- Employees must contribute 3.05% of current salary to DROP account, city matches with 3.05% to DROP account

DROP Continued

- Retirement benefit established on date of entry into DROP. Retirement benefit increases subject to the same rules as retirees (excluding health care reimbursement)

Savings to City

- City of San Diego DROP Data pay period ending 12/19/03

<u>Plan</u>	<u>Count</u>	<u>Salary</u>
General	379	830,413
Safety	377	1,113,046
Total	756	1,943,459

Savings to City

- Employer Contributions to retirement
 - General 10%
 - Safety 20%
- Employees offset paid by employer
 - General 7%
 - Safety 10%

Savings to City

- Total contributions as % of payroll paid by employer
 - General 17%
 - Safety 30%

Employer Contributions to DROP

General 3.05

Safety 3.05

Net Employer Contribution Savings

General 13.95% of payroll

Safety 26.95%

DROP Savings

$$13.95\% \times 830,413 \times 26 = 3,011,907.95$$

$$26.95\% \times 1,113,046 \times 26 = 7,799,113.32$$

Total 10,811,021.27 Annually

Retirement System Benefits

- No health care obligations during DROP period

$$500 \times 756 \times 12 = \$4,536,000.00$$

- Reduces average attained age of active members
- Recent actuarial reports have indicated an actual loss due to increases in attained age

Retirement System Benefits

- Drop Participants are not counted in attained age calculation. Minimum age for Safety Member DROP participation is 50. General Member 55

Retirement System Benefits

- Actuarial reports actual loss due to increased attained age would be greater if DROP participants are added to the calculation